

## **422.12C Child and dependent care or early childhood development tax credits.**

1. The taxes imposed under this division, less the credits allowed under sections 422.11A, 422.11B, 422.12, and 422.12B shall be reduced by a child and dependent care credit equal to the following percentages of the federal child and dependent care credit provided in section 21 of the Internal Revenue Code:

- a. For a taxpayer with net income of less than ten thousand dollars, seventy-five percent.
- b. For a taxpayer with net income of ten thousand dollars or more but less than twenty thousand dollars, sixty-five percent.
- c. For a taxpayer with net income of twenty thousand dollars or more but less than twenty-five thousand dollars, fifty-five percent.
- d. For a taxpayer with net income of twenty-five thousand dollars or more but less than thirty-five thousand dollars, fifty percent.
- e. For a taxpayer with net income of thirty-five thousand dollars or more but less than forty thousand dollars, forty percent.
- f. For a taxpayer with net income of forty thousand dollars or more but less than forty-five thousand dollars, thirty percent.
- g. For a taxpayer with net income of forty-five thousand dollars or more, zero percent.

2. a. In lieu of the child and dependent care credit authorized in subsection 1, a taxpayer may claim an early childhood development tax credit equal to twenty-five percent of the first one thousand dollars which the taxpayer has paid to others for each dependent, as defined in the Internal Revenue Code, ages three through five for early childhood development expenses. In determining the amount of early childhood development expenses, such expenses paid during November and December of the previous tax year shall be considered paid in the tax year for which the tax credit is claimed. This credit is available to a taxpayer whose net income is less than forty-five thousand dollars. If the early childhood development tax credit is claimed for a tax year, the taxpayer and the taxpayer's spouse shall not claim the child and dependent care credit under subsection 1. As used in this subsection, "*early childhood development expenses*" means services provided to the dependent by a preschool, as defined in section 237A.1, materials, and other activities as follows:

(1) Books that improve child development, including textbooks, music books, art books, teacher's editions, and reading books.

(2) Instructional materials required to be used in a child development or educational lesson activity, including but not limited to paper, notebooks, pencils, and art supplies.

(3) Lesson plans and curricula.

(4) Child development and educational activities outside the home, including drama, art, music, and museum activities, and the entrance fees for such activities, but not including food or lodging, membership fees, or other nonacademic expenses.

"*Early childhood development expenses*" does not include services, materials, or activities for the teaching of religious tenets, doctrines, or worship, the purpose of which is to inculcate those tenets, doctrines, or worship.

b. Each taxpayer intending to claim a credit under this subsection shall apply, on forms provided by the department, for the credit by filing a notice with the department no later than November 1 of the tax year to

which the credit is applicable. The notice shall provide supporting documentation as required by the department. The department shall compute the total amount of credits contained in the notices received by the department. The total amount of credits that may be approved for any fiscal year for purposes of this subsection is limited to two million five hundred thousand dollars. If tax credits under this subsection exceed this limit, each taxpayer shall receive a pro rata amount of the credit as determined by the department. The department shall notify the taxpayer of the amount of the taxpayer's credit no later than January 1 following the deadline for receipt of the notice.

3. Any credit in excess of the tax liability shall be refunded. In lieu of claiming a refund, a taxpayer may elect to have the overpayment shown on the taxpayer's final, completed return credited to the tax liability for the following taxable year.

4. Married taxpayers who have filed joint federal returns electing to file separate returns or to file separately on a combined return form must determine the child and dependent care credit under subsection 1 or the early childhood development tax credit under subsection 2 based upon their combined net income and allocate the total credit amount to each spouse in the proportion that each spouse's respective net income bears to the total combined net income. Nonresidents or part-year residents of Iowa must determine their Iowa child and dependent care credit in the ratio of their Iowa source net income to their all source net income. Nonresidents or part-year residents who are married and elect to file separate returns or to file separately on a combined return form must allocate the Iowa child and dependent care credit between the spouses in the ratio of each spouse's Iowa source net income to the combined Iowa source net income of the taxpayers.

90 Acts, ch 1248, §10; 91 Acts, ch 159, §15; 93 Acts, ch 172, §44, 56; 97 Acts, ch 23, §44; 2005 Acts, ch 148, §2327

2005 amendments apply to tax years beginning on or after January 1, 2006; 2005 Acts, ch 148, § 27